

Message Text

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ORIGIN TRSE-00

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FM SECSTATE WASHDC
TO AMEMBASSY CAIRO
INFO AMEMBASSY JIDDA
AMEMBASSY KUWAIT
AMEMBASSY DOHA
AMEMBASSY ABU DHABI

C O N F I D E N T I A L STATE 167786

E.O. 11652: XGDS-1

TAGS: EFIN, EG, IMF

SUBJECT: EGYPT'S RELATIONS WITH THE IMF

1. IMF STAFF BRIEFED U.S. EXECUTIVE DIRECTOR AND OTHER
USG PERSONNEL JUNE TWENTY-FIRST ON RECENT EXTENDED FUND
FACILITY WITH EGYPT. AS PREVIOUSLY REPORTED, THREE-YEAR
EFF IS FOR SDR 600 MILLION (DOLS. 725 MILLION). DRAWINGS
DURING THE FIRST TWELVE MONTHS WILL BE LIMITED TO SDR 250
MILLION.

2. LETTER OF INTENT DOES NOT RPT NOT CONTAIN SPECIFIC
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PROVISIONS REGARDING ADDITIONAL PUBLIC SECTOR PRICE
INCREASES. NEVERTHELESS, EGYPTIANS PLAN LE 150 MILLION OF
NEW INCREASES DURING THE FIRST YEAR OF THE AGREEMENT IN
ORDER TO REDUCE GOVERNMENT DEFICIT. INTEREST RATES ON LE
SAVINGS DEPOSITS WILL BE RAISED IN STAGES TO EIGHT PERCENT.

3. EGYPTIANS WOULD NATURALLY HAVE PREFERRED LARGER EFF

AMOUNT, BUT RECEIVED LITTLE SATISFACTION ON THIS MATTER FOR THE TIME BEING. REFERENCE TO FUTURE "UNDERSTANDINGS" MENTIONED IN LETTER OF INTENT TO BE REACHED BETWEEN IMF AND GOE WAS RETAINED.

4. IMF WILL REVIEW EGYPTIAN PERFORMANCE AGAINST CREDIT CEILINGS IN SEPTEMBER AND DECEMBER 1978 AND MARCH AND JUNE

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1979. FUND INTENDS TO REVIEW GOE 1979 BUDGET IN NOVEMBER AND WILL PROBABLY ALSO EXAMINE THE APPROPRIATENESS OF THE EXCHANGE RATE AT THAT TIME IN VIEW OF INCREASING INFLATIONARY PRESSURES.

5. STAFF DESCRIBED RECENT ECONOMIST ARTICLE ON EFF AGREEMENT AS HARMFUL AND MISLEADING. CONTRARY TO PRESS REPORTS, THE PERFORMANCE REVIEW PROVISIONS ARE STANDARD AND DO NOT RPT NOT SHOW ANY SPECIAL SKEPTICISM REGARDING EGYPTIAN INTENTIONS. IMF MADE STATEMENT TO THIS EFFECT AT PARIS CONSULTATIVE GROUP SESSION TO SET RECORD STRAIGHT.

6. IMF DOES NOT RPT NOT PRESENTLY HAVE A DOLLAR FIGURE FOR FUTURE ARAB AID LEVELS. CODE DIRECTORS MET IN KUWAIT ON JUNE TWENTIETH, AND CODE MINISTERIAL MEETING WILL BE HELD ON JULY FIFTEENTH. IMF ANALYSIS INDICATES A NEED FOR CODE DISBURSEMENTS IN 1978 OF ABOUT \$1 BILLION
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(\$450 MILLION CARRY-OVER PLUS \$600 MILLION IN NEW FUNDS).

7. FUND HAS AGREED THAT EGYPT MAY KEEP THE PRESENT OFFICIAL EXCHANGE RATE FOR DEALINGS WITH BILATERAL TRADING PARTNERS WHICH ARE NOT RPT NOT IMF MEMBERS. ADDITIONALLY, FUND HAS ALSO AGREED THAT OFFICIAL RATE CAN BE USED TO SETTLE EXISTING TRADE BALANCES WITH THOSE BILATERAL NATIONS WHICH ARE IMF MEMBERS.

8. IMF BELIEVES EGYPTIANS ARE MOVING IN DIRECTION OF MERGING PARALLEL AND OWN EXCHANGE MARKETS. CONTINUED EXPANSION OF THE OPEN GENERAL LICENSE IMPORT SYSTEM INCLUDING OPENING OF THIS SYSTEM TO PUBLIC SECTOR COMPANIES, SHOULD FACILITATE INVESTMENT BY PRIVATE SECTOR AND HELP TO ESTABLISH NEEDED BRIDGE BETWEEN PUBLIC SECTOR FOREIGN EXCHANGE REQUIREMENTS AND NEW SOURCES FOREIGN EXCHANGE EARNINGS IN PRIVATE SECTOR.

9. ALL THE ABOVE INFORMATION MUST NATURALLY BE HELD IN STRICTEST CONFIDENCE. VANCE

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